

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Traverse City Trans. & Land Use Study	County Gd. Traverse
Fiscal Year End 09/30/07	Opinion Date 01/24/08	Date Audit Report Submitted to State 3/25/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Yellow Book Report	
Certified Public Accountant (Firm Name) J L Stephan Co, PC		Telephone Number 231-941-7600	
Street Address 862 E. Eighth Street		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Jerry L. Stephan	License Number 1101010359	

TC TALUS

Grand Traverse County

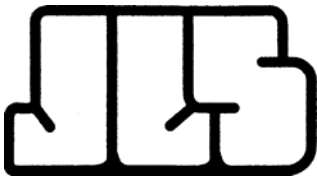
Audited Financial Statements

For the Year Ended September 30, 2007

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FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA
David Skibowski, Jr., CPA
Christopher H. Cornell, CPA

INDEPENDENT AUDITOR'S REPORT

TC TALUS
400 Boardman Ave
Traverse City, MI 49684

We have audited the accompanying financial statements of the governmental activities of TC TALUS as of and for the year ended September 30, 2007 which collectively comprise the organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TC TALUS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of TC TALUS as of September 30, 2007 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2008, on our consideration of TC TALUS' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

The budgetary comparison information on page 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

January 24, 2008

TC TALUS
Governmental Funds Balance Sheet/Statement of Net Assets
September 30, 2007

Exhibit A

	<i>General Fund</i>		
	<i>Modified</i>		<i>Statement</i>
	<i>Accrual Basis</i>	<i>Adjustments</i>	<i>of Net Assets</i>
Assets			
Cash and Equivalents			
Unreserved/Unrestricted	\$ 77,888	\$ 13,483	\$ 91,371
Reserved/Restricted	13,483	(13,483)	-
<i>Total Cash and Equivalents</i>	91,371	-	91,371
Accounts Receivable			
Federal Funds	137,173	-	137,173
State Funds	16,801	-	16,801
<i>Total Accounts Receivable</i>	153,974	-	153,974
Capital Assets - net	-	840	840
<i>Total Assets</i>	<u>\$ 245,345</u>	<u>\$ 840</u>	<u>\$ 246,185</u>
Liabilities			
<i>Liabilities</i>			
Accounts Payable	\$ 162,475	\$ -	\$ 162,475
<i>Total Liabilities</i>	162,475	-	162,475
Fund Balance/Net Assets			
Fund Balance - Reserved			
Railroad Environmental Assessment	13,483	(13,483)	-
LUTS/Grand Vision	(7,426)	7,426	-
Fund Balance - Undesignated	76,813	(76,813)	-
<i>Total Fund Equity</i>	82,870	(82,870)	-
<i>Total Liabilities and Fund Equity</i>	<u>\$ 245,345</u>		
Net Assets			
Invested in Capital Assets - net of debt		840	840
Unrestricted		82,870	82,870
<i>Total Net Assets</i>		<u>\$ 83,710</u>	<u>\$ 83,710</u>

The Notes to Financial Statements are an integral part of this statement

TC TALUS

Exhibit B

Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities For the Year Ended September 30, 2007

	<i>General Fund</i>		
	<i>Modified Accrual Basis</i>	<i>Adjustments</i>	<i>Statement of Activities</i>
Revenues			
Federal Grants - LUTS/GV	\$ 139,433	\$ -	\$ 139,433
State Grants			
Operations	31,228	-	31,228
LUTS/GV	4,786	-	4,786
Local Units Contributions - Ops	68,352	-	68,352
Local Units Contributions - G.V.	4,332	-	4,332
Interest Earned	2,614	-	2,614
Total Revenues	250,745	-	250,745
Expenditures			
<i>Program Management</i>			
Administration	31,566	-	31,566
Public Information	959	-	959
<i>Data Base Management</i>			
Traffic Counts	1,620	-	1,620
Traffic Models	1,084	-	1,084
<i>Long-Range Planning</i>			
Master Planning	16,098	-	16,098
LUTS/GV - Administration	58,333	-	58,333
LUTS/GV - Consultant	152,237	-	152,237
<i>Short-Range Planning</i>			
Local Assistance	3,500	-	3,500
<i>Audit/Accounting</i>	5,072	-	5,072
<i>Indirect Charges</i>	12,784	-	12,784
<i>Other Expenditures</i>			
Depreciation	-	336	336
Total Expenditures	283,253	336	283,589
Excess Revenues Over (Under) Expenditures	(32,508)	(336)	(32,844)
Fund Balance - Beginning of Year	115,378	1,176	116,554
Fund Balance - End of Year	<u>\$ 82,870</u>	<u>\$ 840</u>	<u>\$ 83,710</u>

The Notes to Financial Statements are an integral part of this statement

TC TALUS
Notes to Financial Statements
September 30, 2007

Note 1 - Summary of Significant Accounting Policies

The financial statements of TC TALUS (Traverse City Area Transportation and Land Use Study) have been prepared in conformity with the modified accrual basis of accounting as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of TC TALUS's accounting policies are described below.

A. Reporting Entity

TC TALUS is an Inter-municipality Committee established under Act 200 of 1957 of the Public Acts of Michigan. TC Talus was established to provide coordinated leadership and direction for the development and conduct of a continuing, cooperative, and comprehensive transportation planning process for the purposes of complying with the intent of the applicable sections of the Federal Highway Act of 1964, as amended. TC TALUS is governed by a board of directors primarily designated by each of the member units.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability.

TC TALUS operates as an autonomous agency completely separate from Grand Traverse County or any of the other member units, and is not financially accountable to any other unit. On this basis, accordingly, the financial statements of TC TALUS will not be included in the financial statements of any other organizations. TC TALUS is considered a special purpose governmental unit operating governmental activities and accounts for those activities in a single governmental fund.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are first reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Then adjustments are presented to convert from modified accrual to the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

C. Assets, Liabilities, and Net Assets or Equity

The following is a summary of the local unit's assets, liabilities, and net assets or equity:

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of 90 days or less.

TC TALUS
Notes to Financial Statements
September 30, 2007

Note 1 - Summary of Significant Accounting Policies - continued

Capital/Fixed Assets – Capital assets represent the fixed assets of the local unit utilized in its general operations (non-proprietary fixed assets) and are depreciated using the straight line method.

Fixed assets are recorded at historical cost. Donated fixed assets are required to be valued at the fair market value as of the date received.

In accordance with GASB 34, depreciation has been provided on the fixed assets. Depreciation is computed over the estimated useful lives of the asset. Estimated useful lives are generally five years for equipment.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Stewardship, Compliance and Accountability

A. Budgets

The General Fund is under formal budgetary control. Budgets shown in the financial statements for this fund were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the Organization.

In the body of the combined financial statements, TC TALUS' budgeted expenditures for the budgetary fund has been shown on a line item basis, the level at which they were adopted.

Encumbrance accounting is not used and appropriations normally lapse at year-end.

B. Budget Compliance

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall adopt an annual budget and not incur expenditures in excess of the amount appropriated.

During the year ended September, 2007, TC TALUS had the following expenditures in excess of amounts appropriated.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Long-Rang Planning – LUTS/GV-Admin.	\$ 38,000	\$ 58,333	\$ (20,333)

TC TALUS
Notes to Financial Statements
September 30, 2007

Note 3 – Deposits with Financial Institutions

A. Michigan Compiled Laws, Section 129.91

This law authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements' bankers' acceptance of the United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit has designated one bank for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as outlined above.

The Local Governmental Unit's deposits and investment policy are in accordance with the statutory authority.

B. Types of Deposits and Investments

At year-end, the Local Unit's cash deposits and cash equivalents were reported in the basic financial statements in the following categories:

	Governmental <u>Activities</u>
Cash and Equivalents	\$ 91,371
Investments	-
Restricted Assets	<u>-</u>
Total Deposits	<u>\$ 91,371</u>

The breakdown between deposits and investments is as follows:

	Governmental <u>Activities</u>
Time & Demand Deposits	\$ 91,371
Investments	-
Cash on Hand	<u>-</u>
Total	<u>\$ 91,371</u>

The bank balance of the primary government's deposits is \$91,371 all of which is covered by federal depository insurance.

TC TALUS
Notes to Financial Statements
September 30, 2007

Note 4 - Changes in General Fixed Assets

Capital asset activity of the primary government for the current year is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment				
Computer	\$ 1,679	\$ -	\$ -	\$ 1,679
Traffic Counters	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>1,800</u>
Subtotal	3,479	-	-	3,479
Less: Depreciation	<u>(2,303)</u>	<u>(336)</u>	<u>-</u>	<u>(2,639)</u>
Total	<u>\$ 1,176</u>	<u>\$ (336)</u>	<u>\$ -</u>	<u>\$ 840</u>

Note 5 - Risk Management

TC Talus employees are insured through the Grand Traverse County Road Commission's insurance policy for errors and omissions, liability, and wrongful acts, worker's compensation, health insurance, and property damage coverage. The board members are appointed by the City Council and are covered under the appointing unit's policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6 - Lease

On January 3, 1995 TC Talus entered into a lease agreement with Grand Traverse County for the rental of its office facilities at \$132.38 per month. The lease is renewable annually each year. Thirty days prior to expiration of the lease, TC Talus needs to notify Grand Traverse County of its intent not to renew the lease. If TC Talus does not provide the notice, the lease shall be extended for another year at the adjusted rental rate. The annual rent shall be adjusted by multiplying the percentage increase or decrease of the preceding Detroit June Consumer Price Index to the previous year's rental rate. The rate for the current year is \$175.39.

Note 7 – Prior Period Adjustment

A reimbursement of expenditures for the Land Use and Transportation Study program billed to the Michigan Department of Transportation was received in November 2006. The amount was billed in the prior fiscal year; however it was not recorded as receivable at the fiscal year end. Consequently, revenues and receivables for the fiscal year ended September 30, 2006 were under reported by \$5,931. The following is a summary of the prior period adjustment to correct the error noted above:

Fund Balance – Unadjusted	\$ 109,447
Revenue Adjustment –	
Federal Grants	<u>5,931</u>
Fund Balance – Adjusted	<u>\$ 115,378</u>

REQUIRED SUPPLEMENTARY INFORMATION

TC TALUS
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2007

Schedule 1

	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 115,378	\$ 115,378	\$ 115,378	-
Revenues				
Federal Grants - LUTS/GV	448,000	448,000	139,433	(308,567)
State Grants				
Operations	50,000	50,000	31,228	(18,772)
LUTS/GV	-	-	4,786	4,786
Local Units Contributions - Ops	69,717	69,717	68,352	(1,365)
Local Units Contributions - G.V.	112,000	112,000	4,332	(107,668)
Interest Earned	-	-	2,614	2,614
<i>Total Available for Appropriation</i>	<i>795,095</i>	<i>795,095</i>	<i>366,123</i>	<i>(428,972)</i>
Expenditures				
<i>Program Management</i>				
Administration	34,967	34,967	31,566	3,401
Public Information	21,100	3,100	959	2,141
<i>Data Base Management</i>				
Traffic Counts	5,500	5,500	1,620	3,880
Traffic Models	19,500	19,500	1,084	18,416
<i>Long-Range Planning</i>				
Master Planning	10,150	20,150	16,098	4,052
LUTS/GV - Administration	30,000	38,000	58,333	(20,333)
LUTS/GV - Consultant	500,000	500,000	152,237	347,763
<i>Short-Range Planning</i>				
Local Assistance	7,000	7,000	3,500	3,500
<i>Audit/Accounting</i>	7,500	7,500	5,072	2,428
<i>Indirect Charges</i>	14,000	14,000	12,784	1,216
<i>Total Charges to Appropriations</i>	<i>649,717</i>	<i>649,717</i>	<i>283,253</i>	<i>366,464</i>
Budgetary Fund Balance	<u>\$ 145,378</u>	<u>\$ 145,378</u>	<u>\$ 82,870</u>	<u>\$ (62,508)</u>

The Notes to Financial Statements are an integral part of this statement

OTHER INFORMATION (UNADUTIED)

TC TALUS

Comments and Recommendations

In planning and performing our audit of the financial statements of the governmental activities of Traverse City Traffic and Land Use Study (TC TALUS) as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Unit's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Segregation of Duties

We recognize the District operates with limited personnel. This limitation may lead directly to a lack of proper segregation of duties and, in many cases, a lack of expertise in financial accounting and reporting regardless of accounting and operational policies.

However, we believe reasonable compensating controls have been implemented by the District to reduce these potential significant deficiencies to an inconsequential matter and the risk of material misstatement of the financial statement is assessed at a low level.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

General

The accounting records are in good condition. Recorded revenues were deposited timely and intact, journals and ledgers were properly posted, Board minutes were maintained in good order and supporting documents and follow-up procedures appeared to be in good order. The Executive Director should be commended for his efforts.

TC TALUS

Comments and Recommendations

Fund Accounting

In the past, TC TALUS has accounted for many of its projects in separate, special revenue funds. Recently, it has not created new funds for projects such as the TSP project and the LUTS and Grand Vision projects. Through research and consultation, it appears TC TALUS is considered a special purpose governmental unit operating governmental activities and projects. It is allowable, and we recommend, that TC TALUS account for all projects and activities in a single governmental fund.

We noted TC TALUS entered in to an agreement with the Northwest Michigan Council of Governments to provide bookkeeping services. TC TALUS, historically, has not had many transactions to record. We recommend establishing and maintaining clear and concise lines of communication. As noted above, we recommend maintaining a single fund accounting system with an account mask that closely resembles the State's required Uniform Chart of Accounts.

Cash Accounts

It appears the Railroad Environmental Assessment project has been suspended for at least 4 years. There is approximately \$13,000 left from this project. We recommend the board determine whether the funds are required to be returned to project funding participants or whether the funds may be used for general operations. Either way, we recommend the board make a determination and take action in regards to the idle account.

In the absence of a requirement by funding sources or other regulations to establish separate bank accounts, there is no reason to maintain multiple bank accounts. As long as outside requirements and regulations are met, it is at the board's discretion as to the number and type of bank accounts the organization maintains. The board is also responsible to ensure all accounts comply with its investment policy.

Accruals

Generally, it is very difficult to change accounting systems mid-year. Fortunately for TC TALUS, its accounting system is relatively simple and the number of transactions is few. However, we did note several unrecorded receivables and payables that relate to services provided in the current fiscal year.

Normally, vendors bill for services the week, month or quarter after those services are provided. However, TC TALUS did not receive some vendor invoices for services provided in the current fiscal year until two and a half months after year end. Although this is an extraordinary case, we consider these late invoices to be applicable to the fiscal year ended September 30, 2007 and accrued as such.

Additionally and because TC TALUS is dependent upon reimbursement grant funds to pay the invoices noted above, reimbursement bills to the grantor would normally have been prepared and submitted in a timely basis. However, due to the vendor's delay in submitting invoices, TC TALUS' reimbursement billing was delayed. Based on the matching principle, these billings are also applicable to the fiscal year ended September 30, 2007 and should be accrued as such.

As noted, this is an extraordinary case but should be considered when preparing year-end financial reports.

TC TALUS

Comments and Recommendations

Budgeting

As noted in the footnotes, the Organization is in non-compliance with P.A. 621 of 1978, Section 18 (1), as amended. The executive director indicated he knew of the budget over-run. It is the board's responsibility to amend the budget accordingly to comply with the budgeting act. Further, it's apparent expenditures in excess of budgeted amounts occurred in July, 2007. At that point, or before, the budget should have been amended. We recommend greater care be taken to follow the State's budgeting procedures. The State's manual can be found at the link below:

http://www.michigan.gov/documents/UniformBudgetManual_16634_7.pdf

Fraud Assessment

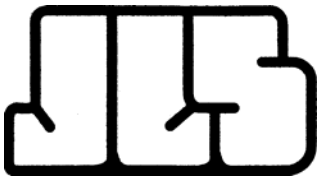
Based on inquiries regarding fraud risk, it appears the board and organization are in the process of addressing the risk of fraud and developing of a fraud risk program. Assets susceptible to misappropriation, such as cash and small non-inventoried assets, financial statement assertions, such as revenue recognition, are some examples of items susceptible to fraud. Internal control policies, written accounting procedures and board oversight are mitigating factors when considering fraud.

We recommend the board continue to consider and establish policies and procedures to mitigate fraud risk.

Closing Comments

This report is intended solely for the information and use of TC TALUS' Board, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties. We are happy to discuss any of these recommendations and assist in their implementation. If any questions arise regarding these financial statements or the conduct of our audit, please call upon us.

FEDERAL FUNDS SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA
David Skibowski, Jr., CPA
Christopher H. Cornell, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TC TALUS
400 Boardman Ave
Traverse City, MI 49684

We have audited the financial statements of the governmental activities of Traverse City Transportation and Land Use Study (TC TALUS), Grand Traverse County, Michigan as of and for the year ended September 30, 2007, which collectively comprise TC TALUS' basic financial statements and have issued our report thereon dated January 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered TC TALUS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TC TALUS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TC TALUS' internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects TC TALUS' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of TC TALUS' financial statements that is more than inconsequential will not be prevented or detected by TC TALUS' internal control.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the TC TALUS' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether TC TALUS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of the TC TALUS's in a separate letter as part of the audited financial statements.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J. L. Stephan Co. P.C.

January 24, 2008

